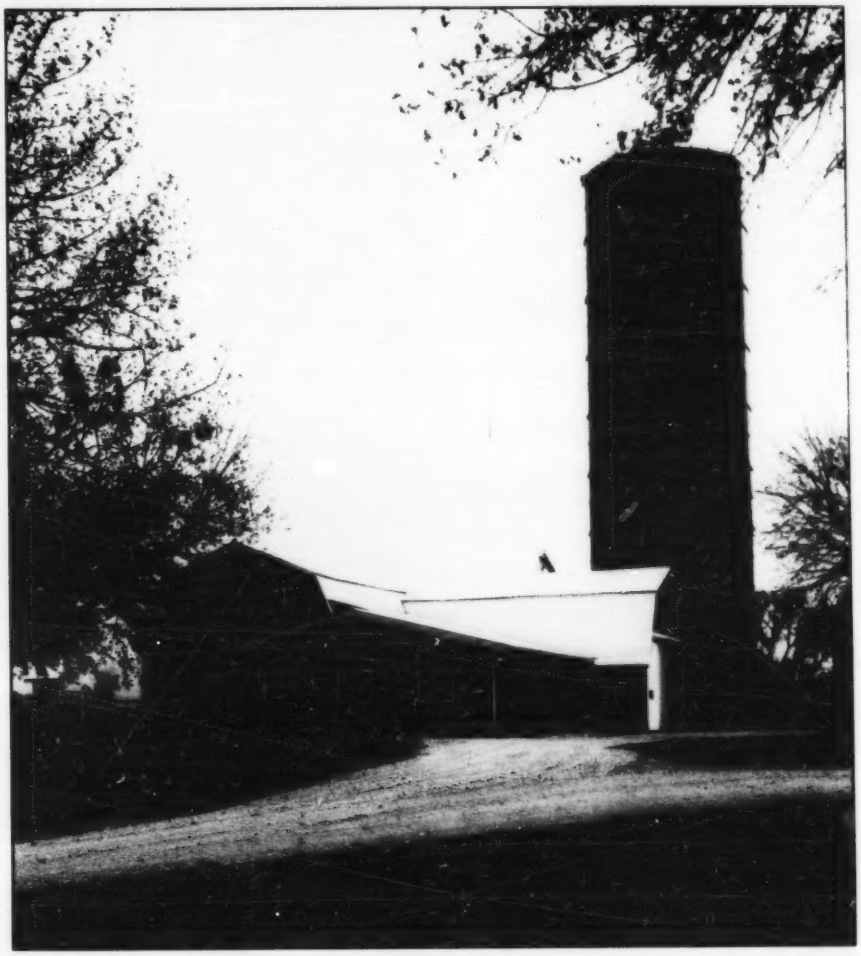
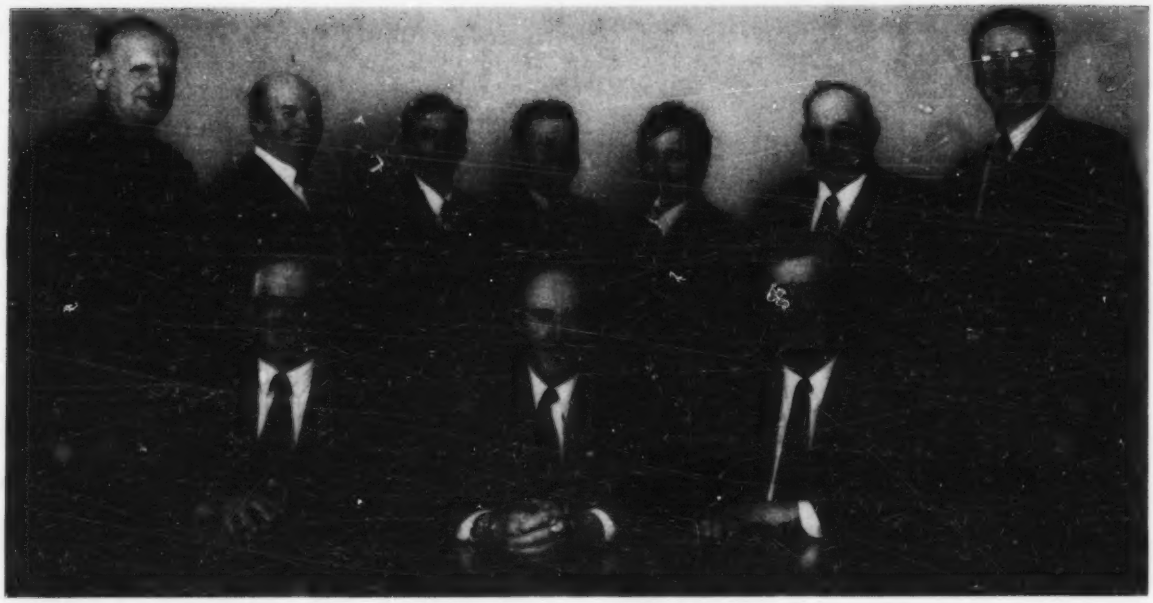
Manitoba Milk Producers

25th Annual Report

1999





BOARD MEMBERS

Front row (left to right)

Maurice Delichte, Executive Member (District 4)
William Swan, Chairman (District 5)
Ken Leppky, Vice-Chairman (District 7)

Back row (left to right)

Hans Borst (District 3)
John Bannister (District 6)
Raymond Pelletier (District 8)
Bud McKague (District 1)
David Wiens (District 9)
Hugh Jameson (District 2)
Jim Wade, General Manager/Corporate Secretary

Picture on Cover

Laingspring Farms Ltd. winner of the 1998 Dairy Farm Excellence Award. Congratulations Raymond and Bertha Laing, Steinbach, Manitoba.

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CHAIRMAN'S COMMENTS

This year marks the end of 25 years of activities for Manitoba Milk Producers. A time to remember our accomplishments, reflect on the future and surely to thank all those who have contributed so much to Manitoba Milk Producers success. A tradition of leadership excellence is seen in the lists of board members and chairmen.

The 1998/1999 year saw more growth in milk production and processing. Cheese manufacturing has reached a new record high. Our records show milk is 100% value added. In 1998/1999 no milk left Manitoba in raw form.

Manitoba Milk Producers was a full participant in the Western Milk Pool Agreement (P4) and re-entered the All Milk Pool Agreement (P6) in February 1999. Producer incomes have been stabilized by our participation in both pools. The commitment of all producers to orderly marketing of milk has brought new growth in production and processing.

We look to the future with a clear vision to maximize producer income in the context of a growing and dynamic dairy industry. This year producers participated in a year long process of reassessing how they are represented on the board of directors of Manitoba Milk Producers.

At times somewhat controversial and as some have said slow, the process was set in motion by producers so that producers could, for the first time in 25 years, determine the most appropriate method of selecting their representatives.

It has been a privilege serving as your chairman this year.

William Swan
Chairman

REPORT FROM THE BOARD

Board Members Activity

During the 1998/1999 dairy year the Members of the board of directors met 17 times for a total of 28 days. In addition a three day strategic planning session was held to set targets for the future. The total number of days the nine members dedicated to Manitoba Milk Producers business in 1998/1999 was 891 or an average of 99 days per member. The low was 77 days and the high was 128 days. Members are involved in regular Manitoba Milk Producers board of directors meetings, Manitoba Milk Producers committee work, affiliated organizations, interprovincial pool, conferences and seminars related to dairy industry management.

Standing Committees

The board of directors established seven committees in 1998 and their purposes were to provide Members specialized attention to matters affecting milk production. The 1998 committees were Executive, Environment, Finance, Product Promotion, Transportation, Scholarship and 25th Anniversary. A complete list of committees is found in this report on page 29,

Related Organizations

Members also are active in related provincial and national organizations. In 1998/1999 these were Agriculture in the Classroom, Canadian Milk Supply Management Committee, Dairy Farmers of Canada, Keystone Agricultural Producers, Manitoba Forage Council and Manitoba Farm Animal Council.

Interprovincial pooling agreement supervision occupied the time of three of the Executive members on an ongoing basis. Bi-monthly meetings were held in each pool and all of these meetings were out of province.

District Milk Committees

Manitoba Milk Producers is a dairy farmer organization and is completely funded by and directed by them. Nine district milk committees consisting of 9 elected producers per district assist Manitoba Milk Producers in all aspects of policy development.

Each district milk committee met three or four times in the district and all the committees gathered at the Forum for District Milk Committees in Brandon, on March 17 and 18, 1999.

Spring District Meetings

Members called a series of 10 spring district meetings in all districts in April 1999 to discuss the World Trade Organization Panel Decision, review milk quality improvement and advise Members on producer representation. Manitoba Milk Producers committed to doing a survey of all producers on producer representation to include more producers in the process.

Member Elections

In the fall on 1998 Member elections were called in districts 3, 6 and 9. In district 6 one nomination was received and Mr. John Bannister was declared elected by acclamation. In district 3, Mr. Hans Borst and Ms. Judith Robidoux were nominated. Ballots were circulated and counted and Mr. Borst was elected. There was a 94% return of ballots from district 3. In district 9, Mr. Ron Andres and Mr. David Wiens were nominated and Mr. Wiens was elected. There was a 96% return of ballots in district 9.

YEAR 2000 COMPLIANCE COMMITTEE

On January 1, 2000, the Year 2000 problem - known as the "millennium bug" - could affect any computer and any kind of date-activated device. The Year 2000 computing problem stems from the practice of representing the year as a two-digit code instead of four (e.g. "97" for "1997"). When "00" is entered for the Year 2000, the date may either be interpreted as " 1900" resulting in errors when the dates are used in computations or comparisons or even cause the system to fail. This applies to many existing technologies or business applications, from word processing, to networks, to electronic equipment and facilities systems.

Manitoba Milk Producers recognized the importance of being Year 2000 compliant for both our clients and our suppliers and created a committee (Year 2000 Compliance Committee) to address this issue. Its mandate was to ensure the continuous business operation of Manitoba Milk Producers, with respect to the Y2K problem, on and past January 1, 2000. The Committee has met 7 times since it's inception on March 13, 1998. It has made regular reports to the Board and received guidance from them. As a result of these meetings, the Committee feels there is a *very low risk* of any problems developing as a result of the Y2K issue due to the following reasons:

- Milk Producer Payment
- In October 1997, NCR informed the Board that our computer system was not Y2K compliant. Due to the age of the our mainframe (over 9 years old), the Board had no choice but to migrate to something new. In January 1999, work was started on the following:
  1. Installing a Windows NT network
  2. Reprogramming all programs to the new computer language
  3. Testing to make sure the producer cheques would not be effected in any way.
- This work was completed by July 1999, and the 1999/2000 dairy year was started on the new system. The Board will have three months of payment done by January 2000 to ensure that there are no problems regarding the New Year.
- telephones, fax machine, photocopier, hydro and environmental controls are Y2K compliant
- Installed new network system which is Year 2000 compliant and conversion of all programs to new programming system:
- the producer payment programs are ready for August 1, 1999
- the General Ledger is ready for August 1, 1999
- Upgraded all PC's which need to be Year 2000 compliant
- Received letters from major suppliers stating they are Year 2000 compliant.
- The bonding letter to all processors will have a statement regarding Y2K compliancy.
- All producer related information regarding the Y2K problem has been forwarded to producers through our web site, mail or Milkline
- development of a list of Y2K compliant dairy software and hardware for milking and feeding machines to be mailed to all Manitoba milk producers
- sent a Y2K booklet to all producers through the mail developed by CFA
- have articles in the Milkline informing producers on the Y2K problem
- development of Disaster Recovery Plan and Business Recovery Plan

We are confident there will be no interruption in our business affairs with clients and suppliers.

INDUSTRIAL PRICE CHANGES

The Canadian Dairy Commission announced an increase to the support prices for industrial milk effective February 1, 1999 of $1.12/hL or a 1.8% increase. This increase consisted of $0.27/hL due to increased costs of milk production, $0.85/hL for subsidy recovery. This resulted in an increase in the support price of skim milk powder from $4.4310 to $4.5247 per kilogram. The butter support price increased from $5.3927 to $5.4667 per kilogram.

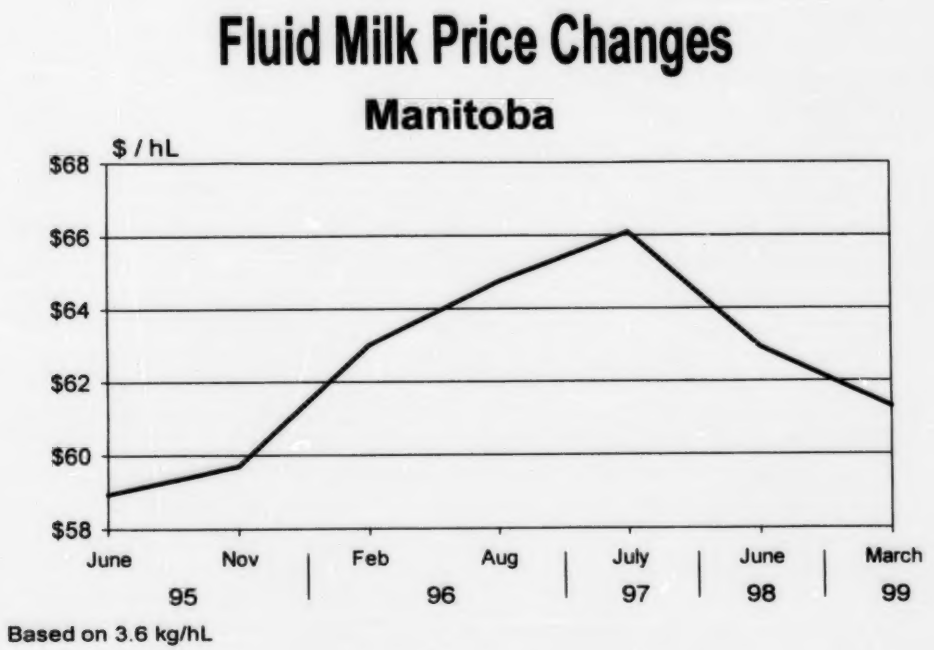
A charge of $0.07 per hectolitre was included in the target price to cover costs associated with the normal stocks of butter held by the Commission. The $0.07 per hectolitre charge ensures domestic demand is met by holding butter stocks and to cover administration costs related to the Commission's domestic marketing activities.

The subsidy rate paid directly to producers, from August 1998 to January 1999, was $0.844 per kilogram of butterfat ($3.04/hL). This rate was reduced to $0.633 per kilogram ($2.28/hL) for the remainder of the 1998/99 dairy year. This decrease was offset by an increase in the support price for skim milk powder.

In negotiations with Manitoba processors, all classes of industrial milk were increased by the full $1.12/hL effective February 1, 1999.

FLUID MILK PRICE

On March 1, 1999, the Milk Prices Review Commission (MPRC) decreased the producer fluid milk price $1.65/hL, from $63.49/hL to $61.84/hL @ 3.7034 kg/hL.. The price adjustment reflected, according to the MPRC Cost of Production Formula, decreased costs due to lower prices for hay and barley. The MPRC has the authority to set producer prices for fluid milk in Manitoba.



Based on 3.6 kg/hL

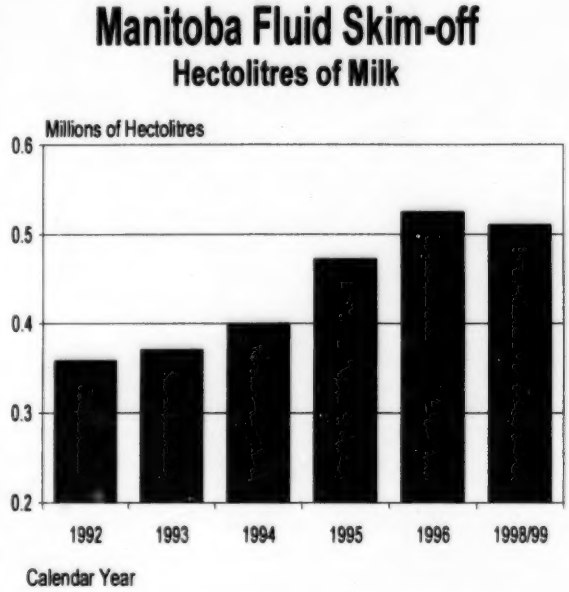
1998/1999 FLUID SKIM OFF

1998/99Fluid Skim Off

Fluid skim-off is butterfat that is skimmed off in the production of fluid milks such as 2%, 1% and skim milk and is sold into the industrial market to be processed into butter, ice cream and other higher fat products. Fluid creams such as cereal cream, table cream and whipping cream consume part of this fluid skim-off and decrease the skim-off entering the industrial market. Because this fluid skim-off butterfat reaches the industrial market, it means less raw milk is required to be shipped by producers to fill the industrial product requirements.

A change in methodology was approved by the Canadian Milk Supply Management Committee (CMSMC) regarding fluid skim-off. The data will now be sourced from pooling data sent by the Pooling Partners as opposed to the Statistics Canada data. As well, skim off will now be calculated on a rolling 12 month basis. This is in line with the notion of more frequent quota adjustments. Therefore, if MSQ is changed, there is a years worth of skim-off data to be utilized when calculating the updated MSQ.

Manitoba's 1998/99 fluid skim off increased from 489,221 hL to 511,350 hL, a 4.54% increase over 1997. This is equivalent to 79,947 kilograms of butterfat or 2.1 million litres of raw milk that was displaced. Fluid skim-off for Canada decreased by 2.17% while the Western Milk Pool (WMP) skim-off decreased by 1.2%. Manitoba will benefit from this decrease in the WMP skim-off because skim-off is shared in the WMP. The P5 saw a decrease of 2.8% in their fluid skim-off figures.



The increase in 1998/99 Manitoba skim off was due primarily to a decrease in fluid cream sales. Sales in these products dropped by 26.54% from 1997. It is the fluid skim off that is used in the production of these products. There was also a decrease in fluid sales which somewhat offset the fluid skim off increase. This is because less fluid sales means less fluid skim off was produced.

Also dealing with skim-off is the issue of fluid product butterfat contents. The annual average BF content in the fluid sales rose from 1.63% in 1997 to 1.67% in 1998/99. This meant more butterfat was kept in the products as opposed to being skimmed off. The fluid creams also saw a rise, going from 16.22% in 1997 to 18.06% in 1998/99. It was the increased butterfat contents that partly helped in containing the growth in fluid skim-off in Manitoba.

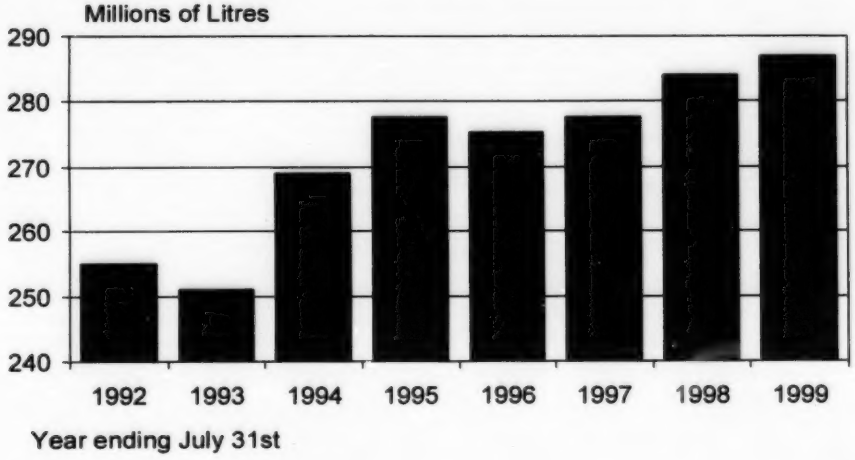
In a further effort to reduce fluid skim off and thereby expand industrial milk processing, Manitoba Milk Producers has applied for a change to regulations governing finished fluid milk product butterfat content. Manitoba Milk Producers proposed calculating the actual butterfat content to 2 decimal places and that the regulations be amended to read "no lower than" the amount of butterfat indicated on the label. These changes will harmonize Manitoba's regulations with those of our Western Milk Pool partners.

A final impact on fluid skim-off is the provincial average raw milk butterfat test. With a higher raw milk butterfat test, this means there is more butterfat in the milk to be skimmed off. In comparing 1998/99 to 1997, the raw milk test for Manitoba remained stable, dropping slightly from 3.7992 kg/hL to 3.7906 kg/hL for a difference of –0.0086 kg/hL.

MILK PRODUCTION

Manitoba Milk Producers marketed 287.3 million litres of milk during 1998/99 as compared to 284.5 million litres in 1997/98. This represents an increase of 2.7 million litres, or 0.95%. Total butterfat production increased by 1.12%, from 10,768,658 kgs in 1997/98 to 10,889,583 kgs in 1998/99. The butterfat content increased slightly from 3.78449 kg/hL to 3.79079 kg/hL representing an increase in the butterfat test of 0.0063 kg/hL or 0.17%.

Manitoba Milk Production
Quota Years 1992 to 1999

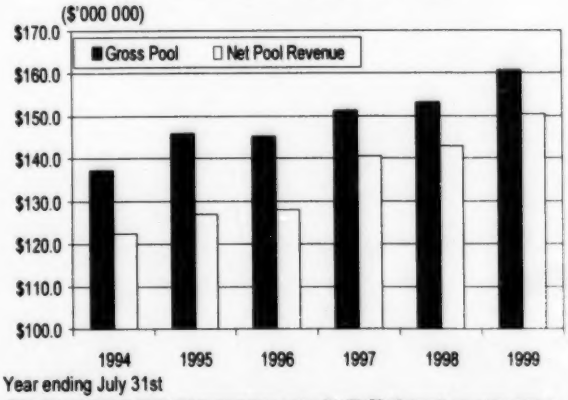


MILK MARKETING TO PROCESSORS

For the 1998/99 dairy year, Manitoba Milk Producers marketed to twelve processing plants owned by five processing companies at a total value of $161.9 million compared to $159.5 million in 1997/98. These consisted of three fluid milk plants and nine industrial milk plants.

Fluid milk plants receive milk on demand and consumed 108.1 million litres or 37.6% of total milk marketed. Industrial milk plants receive milk on the basis of traditional allocations set each year after skim off adjustments have amended the provincial market share quota. Milk in excess of the aggregated traditional allocations was marketed to highest classification. Industrial milk plants processed 179.1 million litres of milk in a wide range of dairy products. About 63% was used to make cheese. All of Manitoba's milk is processed in Manitoba and is 100% value added. Processors purchased milk for export to countries such as United States, Mexico, Haiti, Nicaragua and Japan.

Gross Pool vs Net Pool Revenues
Quota Years 1994 to 1999



Note: Net pool revenues means total processor revenue minus P4 / P6 / P9 adjustments, minus transportation, Board deductions, audit adjustments & infractions. This is before on farm costs experienced by producers

ALL MILK POOL (P6) AGREEMENT

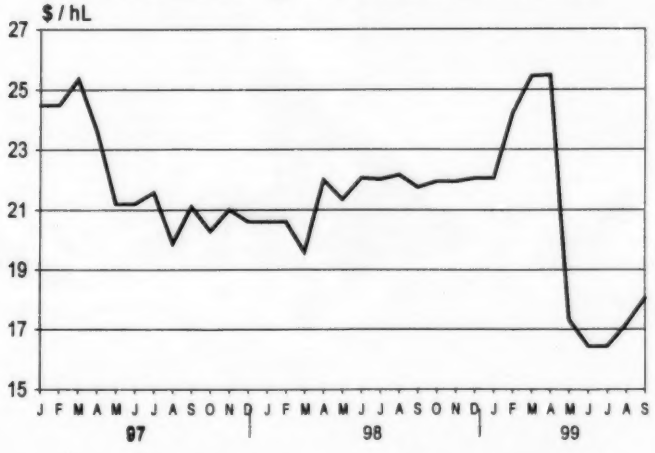
Manitoba Milk Producers is a signatory of the All Milk Pooling Agreement or the P6 as it is commonly referred to. It consists of the provinces of Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario and Manitoba. Manitoba participates in a revenue sharing pool with these provinces on the basis of comparing the P6 pool average price with each individual province pool average.

In February 1998, Manitoba withdrew its participation in the All Milk Pool as our expectations of the pool were not being met. The P6 agreed to let Manitoba withhold its payment into the P6 pool from the pooling months of February 1998 to February 1999 until a dairy industry study was completed. The study was to review the different pooling agreements (P9, P6 & P4) Manitoba had entered into, the possibility of an interprovincial quota exchange, Manitoba's competitive advantages in dairy and a review of other provincial and state dairy sectors. The funds being withheld every month from the P6 were deposited into an interest bearing account until the Board completed its review.

After careful review of the major factors affecting processing, production, competitiveness, and the regulatory environments, the Board decided to rejoin the P6 pooling agreement and paid all funds owing to the P6. In addition, the Board recognizes the importance of being a part of the P6 as this pool has a greater potential of obtaining Optional Export Programs contracts (OEP).

Producer World Prices

as calculated by the CMSMC formula



WESTERN MILK POOL AGREEMENT

Manitoba Milk Producers participates in an all market and all revenue sharing agreement with Saskatchewan, Alberta and British Columbia. Over the 1998/99 dairy year the Coordinating Committee, met three times to discuss and set policy with respects to the Western Milk Pool. The Technical Committee met a total of four times to review the policies proposed by the Coordinating Committee and recommend action on any technical matters.

The Coordinating Committee has worked on such issues as interprovincial milk movement cost sharing, whole farm transfers rules, standardizing audit procedures, end use MCP conversion, interprovincial quota exchange and pooling revenues on MCP or Total Solids.

MONTHLY POOL PAYMENT SUMMARY

Manitoba Milk Producers

Monthly Pool Payment Summary
Dairy Year August 1998 to July 1999

Milk Class	Description	LITRES 1998-1999	LITRES 1997-1998	Percentage Inc.(Decr.)	Values 1998-1999	Values 1997-1998	Percentage Inc.(Decr.)
1A	Fluid Milk	97,687,972	96,519,723	1.21%	$50,915,897.94	$53,367,850.39	-4.59%
1B	Fluid Creams	3,054,963	3,168,919	-3.60%	$4,242,933.15	$4,527,817.41	-6.29%
1C	Flavoured Milk	7,373,836	7,632,068	-3.38%	$3,738,839.87	$4,120,957.36	-9.27%
2	Ice Cream	4,647,350	5,926,770	-21.59%	$6,165,940.71	$6,537,312.72	-5.68%
3A	Specialty Cheese	56,585,902	48,120,672	17.59%	$29,195,076.05	$24,178,312.65	20.75%
3B	Cheddar Cheese	70,652,508	69,009,636	2.38%	$38,298,907.81	$36,414,865.38	5.17%
4A	Butter/powder	26,882,845	26,848,356	0.13%	$25,502,765.17	$22,237,506.51	14.68%
4B	Condensed Milk			0.00%	$0.00		0.00%
4C	New Products	72,000	68,700	4.80%	$39,583.15	$36,875.06	7.34%
4D	Inventories	1,022,049	940,758	8.64%	$339,480.81	$385,294.89	-11.89%
5A	Further Processor-Cheese	1,430,241	4,835,157	-70.42%	$812,451.40	$1,859,630.52	-67.07%
5B	Further Processor-Non Cheese	801,449	3,670,554	-78.17%	$403,792.39	$3,275,892.17	-87.67%
5C	Confectionery products	114,714	8,454	1256.92%	$43,516.73	$10,100.95	330.82%
5D	Planned Structural Surplus	3,527,759	9,847,298	-64.18%	$481,014.95	$1,480,693.02	-67.51%
5E	Plan C & Surplus Removal	10,201,525	7,238,650	40.93%	$1,339,006.85	$995,618.22	34.49%
	Optional Export Program	2,344,221	47,477	4837.59%	$631,684.57	$50,391.20	1153.56%
	Component/Meter Shrink	865,043	663,869	30.30%			
Gross Production		287,264,377	284,547,061	0.95%	$161,950,631.55	$159,479,118.45	1.55%
Pool Adjustments:							
	- Component Adjustments				($114,715.84)	$35,055.25	-427.24%
	- Pool Interest Income				$196,158.22	$136,736.03	43.46%
	- National Pool (P4),(P6),(P9)				($1,349,986.29)	($6,571,112.26)	-79.46%
	TOTALS				$160,682,347.64	$153,079,797.47	4.97%

POOL PAYMENT DISTRIBUTION -STATISTICS

Domestic Market - Components & Revenues		1998-1999 Pool Factors	1997-1998 Pool Factors	Percentage Inc.(Decr.)	1998-1999 Revenues	1997-1998 Revenues	Percentage Inc.(Decr.)
	Butterfat	$5.62497	$5.34383	5.26%	$57,777,713.48	$54,582,860.10	5.85%
	Protein	$8.68738	$8.41852	3.19%	$79,202,114.34	$76,190,037.13	3.95%
	Other Solids	$1.29726	$1.25821	3.10%	$19,800,503.60	$19,047,515.31	3.95%
Optional Special Class							
	Butterfat	$2.55171	$2.63765	-3.26%	$550,880.96	$331,986.42	65.93%
	Protein	$4.02751	$4.16546	-3.31%	$764,322.94	$460,059.62	66.14%
	Other Solids	$0.59934	$0.61931	-3.22%	$191,182.85	$115,915.85	64.93%
World Market Component & Revenues							
	Butterfat	$1.85462	$1.55769	19.06%	$729,026.48	$636,629.95	14.51%
	Protein	$2.79471	$1.99170	40.32%	$958,395.18	$708,185.08	35.33%
	Other Solids	$1.11534	$1.57292	-29.09%	$641,373.00	$942,389.12	-31.94%
Food Bank	Butterfat	$6.10358	$4.55864	33.89%	$19,921.83	$9,031.16	120.59%
	Protein	$8.62259	$7.15864	20.45%	$27,948.59	$12,570.00	122.34%
	Other Solids	$1.34636	$1.05900	27.14%	$7,012.14	$3,143.27	123.08%
Skim-Off Export Prog.	Butterfat	$2.20000	$2.20000	0.00%	$11,952.46	$39,446.46	-69.70%

Manitoba Milk Producers

Monthly Pool Payment Summary
Dairy Year August 1998 to July 1999

Milk Class	Description	Litres	Butterfat Kgs	Protein Kgs	Other Solids Kgs	Total Values
1A	Fluid Milk	97,687,972	1,523,607.853	3,264,341.263	5,591,757.188	$50,915,897.94
1B	Fluid Creams	3,054,963	551,768.083	85,206.002	146,118.931	$4,242,933.15
1C	Flavoured Milk	7,373,836	104,356.106	246,116.480	421,650.613	$3,738,839.87
2	Ice Cream	4,647,350	883,460.410	129,813.362	218,895.734	$6,165,940.71
3A	Specialty Cheese	56,585,902	1,763,434.990	1,923,372.623	3,209,105.143	$29,195,076.05
3B	Cheddar Cheese	70,652,508	2,605,771.131	2,383,413.209	4,000,565.674	$38,298,907.81
4A	Butter/powder	26,882,845	3,087,024.018	830,529.630	1,387,308.958	$25,502,765.17
4B	Condensed Milk	0	0.000	0.000	0.000	$0.00
4C	New Products	72,000	2,752.171	2,427.666	4,070.011	$39,583.15
4D	Inventories	1,022,049	2,919.767	35,232.152	58,448.209	$339,480.81
5A	Further Processor-Cheese	1,430,241	41,619.169	48,720.011	81,066.892	$612,451.40
5B	Further Processor-Non Cheese	801,449	33,891.821	27,213.864	44,934.775	$403,792.39
5C	Confectionery products	114,714	5,062.449	3,982.769	6,389.746	$43,516.73
5D	Planned Structural Surplus	3,527,759	4,492.718	124,775.175	206,437.415	$481,014.95
5E	Plan C & Surplus Removal	10,201,525	39,847.002	350,978.373	597,111.700	$1,339,006.85
	Optional Export Program	2,344,221	94,350.721	79,006.831	131,661.065	$631,684.57
	Component/Meter Shrink	865,043	15,815.105	122,580.881	65,321.054	$0.00
Gross Production		**287,264,377**	**10,760,173.513**	**9,657,710.291**	**16,170,843.110**	**$161,950,891.55**

Pool Adjustments:

- Component Adjustments	($114,715.84)
- Pool Interest Income	$196,158.22
- National Pool (P4)	$967,965.41
- National Pool (P6)	($490,362.19)
- National Pool (P9)	($1,827,589.51)

TOTALS	**287,264,377**	**10,760,173.513**	**9,657,710.291**	**16,170,843.110**	**$160,682,347.84**

POOL PAYMENT DISTRIBUTION

Domestic Components & Revenues		Distribution Weight	Average Pool Factors	Component Revenues	REVENUES
	Butterfat	10,271,643.430	$5.62497	$57,777,713.48	
	Protein	9,116,919.075	$8.68738	$79,202,114.34	
	O/Solids	15,263,324.676	$1.29726	$19,800,503.60	$156,780,331.42

Optional Special Class Components & Revenues		Distribution Weight	Average Pool Factors	Component Revenues	
	Butterfat	215,886.980	$2.55171	$550,880.96	
	Protein	189,775.560	$4.02751	$764,322.94	
	O/Solids	318,988.980	$0.59934	$191,182.85	$1,506,386.75

World Market/Optional Export Components & Revenues		Distribution Weight	Average Pool Factors	Component Revenues	
	Butterfat	393,085.820	$1.85462	$729,026.48	
	Protein	342,932.010	$2.79471	$958,395.18	
	O/Solids	575,047.080	$1.11534	$641,373.00	$2,328,794.66

Food Bank	Butterfat	3,263.960	$6.10358	$19,921.83	
	Protein	3,241.320	$8.62259	$27,948.59	
	O/Solids	5,208.210	$1.34636	$7,012.14	$54,882.55

Skim-Off Export Prog.	Butterfat	5,432.940	$2.20000	$11,952.46	$11,952.46

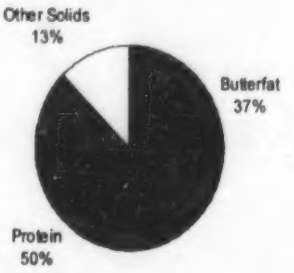
Total Revenues	**$160,682,347.84**

PAYMENTS TO PRODUCERS

Marketing in fluid (Class 1) milk increased on a volume basis by 0.74% but was offset by a fluid milk price decrease that saw revenues decrease by 5.02%. Industrial milk marketings saw a decrease of 0.21% this year compared to last year. However, with an industrial milk price increase, industrial revenues were up by 5.14%. Overall, this placed revenues received from processors at an increase of 1.19%. Adding in revenues from Optional Export Programs, total revenues from processors was 1.55% higher than the 1997/98 dairy year.

Percent Share of Revenue

Domestic Market
1998/99 Dairy Year

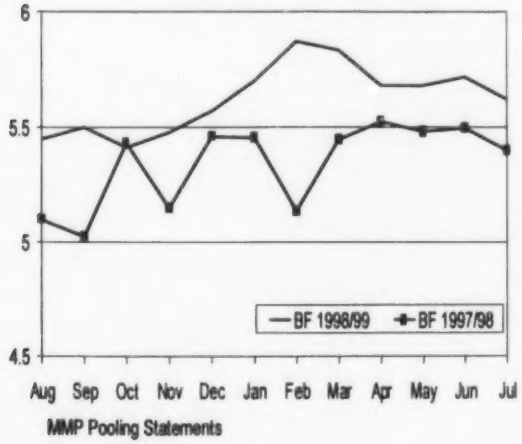


MMP Pool Statements

Taking into account pool adjustments such as component adjustments, pool interest income and national pool payment, gross revenues paid to producers were up by 4.97%. The biggest effect was the national pool payments. There were less export marketings in the P9 pool (–10.12% in volume and -11.95% in revenue) this year compared to last year. This decreased the payments needed to cover all the national exporting programs. As well, Manitoba's decreased fluid price meant less revenue was placed into the P4 and P6 pools. This had the impact of decreasing our payment into these pools. All of these factors translated into higher Domestic component prices for the producer.

Monthly Domestic BF Price Comparison

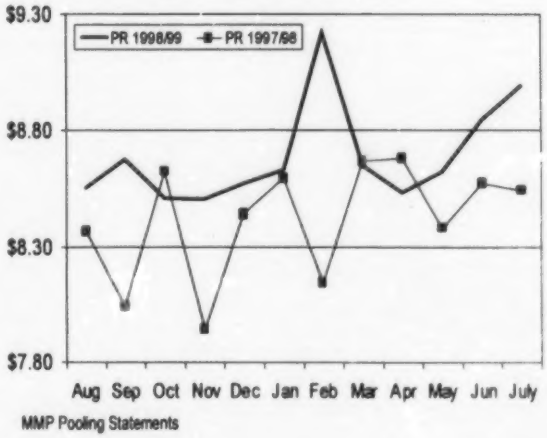
1998 / 99 vs 1997 / 98



MMP Pooling Statements

Monthly Domestic PR Price Comparison

1998 / 99 vs 1997 / 98



MMP Pooling Statements

DAILY QUOTA SUMMARY

1998/99 Dairy Year:

Producers daily quota was increased by 1% August 1, 1998, and 1% on December 1, 1998 primarily due to strong growth in cheese sales nationally. A 5% Cover-Off was made available to producers for August through November, 1998 which made an additional 175,126.03 Kilograms of quota available to producers, 45.2% of the available Cover off was actually used.

Daily Quota Issued as of July 31,1999: 28,899.94 Kgs.

B.F. Production for 1998/1999 Dairy Year: 10,880,621.10 Kgs.B.F.

Quota Utilization 1998/99: 103.25%

1999/2000 Dairy Year:

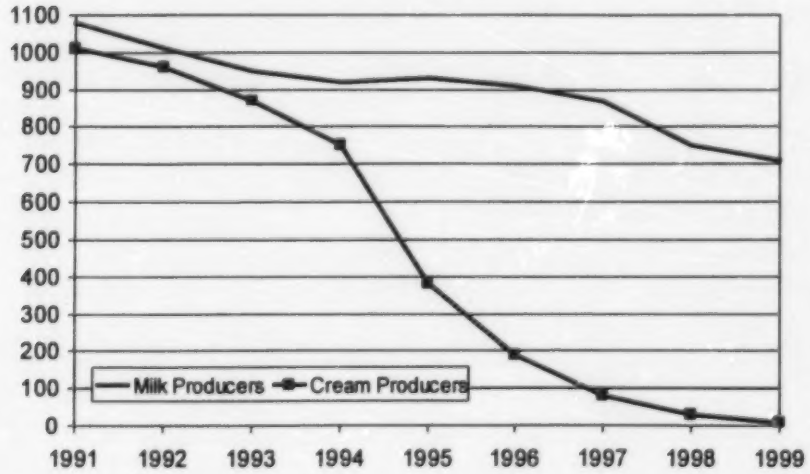
There was no change to producers daily quota for the start of the new dairy year August 1, 1999. Despite growth in domestic sales over the previous 12 months, a corresponding decrease in planned exports meant that no additional quota was required for the start of the 1999/2000 dairy year. The cover off was again set at 5% for the period August 1 to November 30, 1999.

Daily Quota Issued for August, 1999: 28,724.52 Kgs. B.F.

New adjustment parameters were approved by the CMSMC which will be more responsive to changes in the Marketplace. Using a 12 month rolling average, and comparing it to the Canadian Requirements for the 1999/2000 Dairy Year as a base, Quota will be automatically adjusted if requirements show an increase of 1% or more for 2 consecutive months, or a decrease of .5% or more for 2 consecutive months.

Number of Dairy Farms

Milk and Cream Producers



DAILY QUOTA SUMMARY

Cream Quota Summary:

Farm separated cream production totalled 15,524 kilograms of butterfat for the dairy year ending July 31, 1999 (110.8% utilization). There was no adjustment to Cream Market Sharing Quota for the start of the 1999/2000 Dairy Year. As of August 1, 1999 Manitoba has 7 registered cream producers holding 14,012 Kilograms of cream Market Sharing Quota.

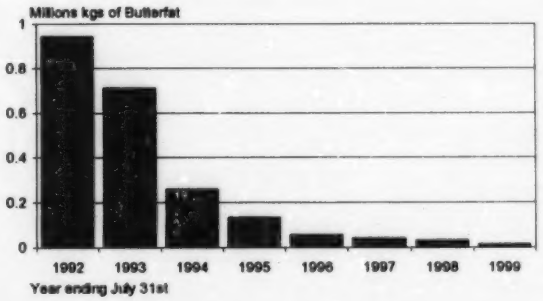
Quota Exchange Summary:

Quota Exchange Clearing Prices

	1998/99 Quota Price By Month	1997/98 Quota Price Comparison
Aug	$11,500.00	$9,411.10
Sep	$11,052.00	$9,412.00
Oct	$11,190.00	$10,000.00
Nov	$11,500.00	$10,320.25
Dec	$12,000.00	$10,460.00
Jan	$12,500.00	$10,990.00
Feb	$12,999.99	$11,521.45
Mar	$12,950.00	$11,950.00
Apr	$12,900.00	$11,890.00
May	$13,000.00	$11,895.00
Jun	$13,400.00	$11,800.00
July	$14,000.99	$11,900.00

Manitoba Farm Separated Cream Production

Quota Years 1992 to 1999



Summary of Quota Transfers:

Type of Transfer	# of Applications Approved	Kgs of Quota Transferred
Complete Dairy Farm Sale	6	191.37
Complete Dairy Transfers	17	551.07
Farm Incorporations	5	352.48
Partial In-Family Transfers	1	10.00
Totals	29	1,104.92

Summary of Quota Movement by District:

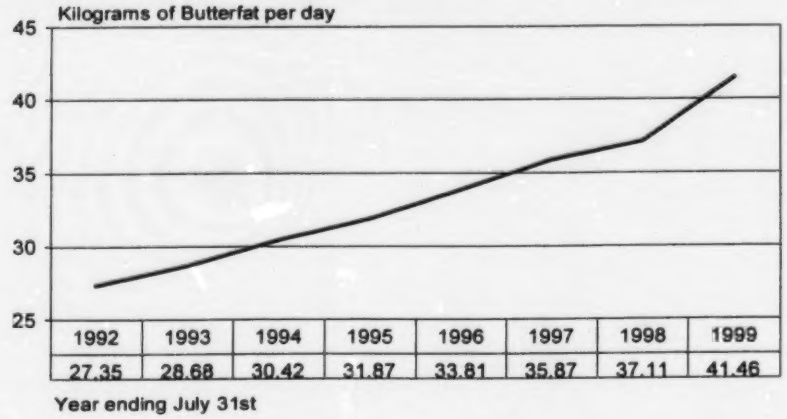
(In kilograms of Daily Quota)

District #	Quota Purchased (kgs)	Quota Sold (kgs)	Net Change (kgs)
1	48.25	140.76	-92.51
2	91.81	103.41	-11.60
3	173.32	137.25	+36.05
4	82.59	55.96	+26.63
5	81.34	198.99	-117.65
6	221.20	150.78	+70.42
7	198.47	222.79	+24.32
8	403.58	165.73	+237.85
9	174.20	277.18	-102.98

DAILY QUOTA SUMMARY

Daily Quota

Average of Daily Quota per Farm



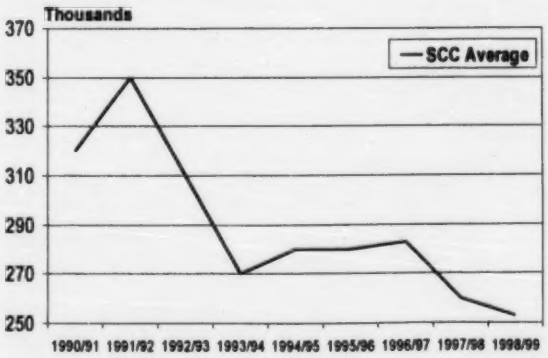
Milk Quality

Changes were made to the Milk Quality Policy of Manitoba Milk Producers effective December 1, 1998, which brought the Manitoba policies in line with the rest of Canada. These changes reduced the amount of time that an infraction for Plate Loop Count, Somatic Cell Count, Water and Substandard Premises, remains active on a producer's record from 12 months down to 6 months (rolling). Warnings for Plate Loop Count, Water, and Substandard Premises were increased from1 to 2 warnings before penalties are deducted.

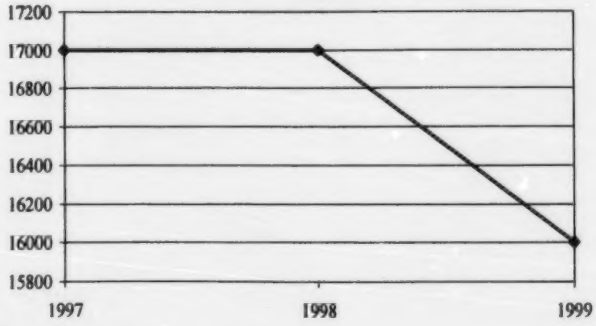
Quality Group Activities

The quality group continued through 1998/1999 to contact and provide assistance to producers experiencing milk quality problems, and increase awareness of the importance of good herd and udder health practices. Through the efforts of Manitoba Milk Producers in cooperation with staff from Manitoba Agriculture, local Veterinarians, and Equipment Dealers, the number of producers experiencing chronic milk quality problems has dropped significantly over previous years.

Manitoba Average Annual Somatic Cell Count



Manitoba Average Annual Plate Loop Count



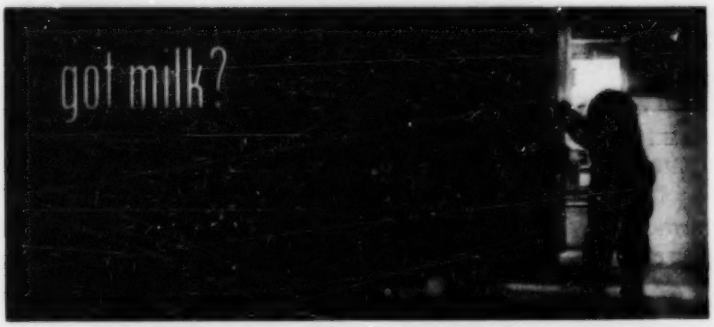
PRODUCT PROMOTION

Fluid Milk

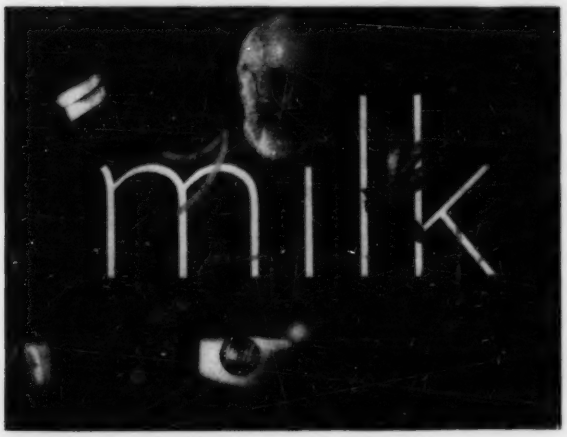
In 1999, due to the phenomenal success its enjoyed, Manitoba Milk Producers opted to continue into its fifth year of the "got milk?" campaign.

Research results indicated that overall campaign recall reached a historical high, with nearly two-thirds (63%) of consumers able to playback some element of the "got milk?" campaign. Mediums consisted of television, outdoor and in-store advertising. During late '98 through to July 1999, Manitoba Milk Producers ran five innovative "got milk?" television spots. Paws, Interrogation, Hall of Mirrors, Isolation and Body Cast ran in rotation during this time period. Research indicated both Isolation and Paws achieved excellent prompted recogniton scores with ninety-three (93%) percent of consumers recognizing at least one of the executions.

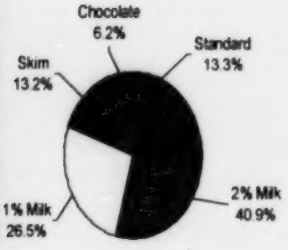
Again in 1999, the use of billboards showing co-dependant food products, reminded consumers to stop for milk on their way home.



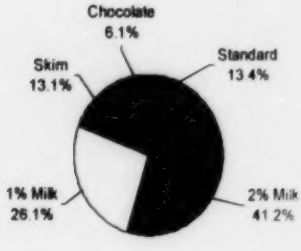
Manitoba Milk Producers once again partnered with the Winnipeg Free Press to promote the 1999 Milk Calendar. As opposed to the 1998 promotion, which ran for a total of 8 weeks, the 1999 Milk Calendar promotion ran for 6 weeks. The promotion began with a pre-distribution drop 3-week campaign consisting of "spot the calendar - enter to win", and a teaser campaign promoting the drop date and grand prize of a trip for two to Hawaii. The next 3-week phase of the promotion was post-distribution featuring Milk Calendar Trivia with questions relating to the Milk Calendar. Both the calendar and trivia contest were advertised on shelf-talkers in grocery stores and on 5 Winnipeg radio stations.



Fluid Sales Utilization
1998 / 99 vs 1997 / 98

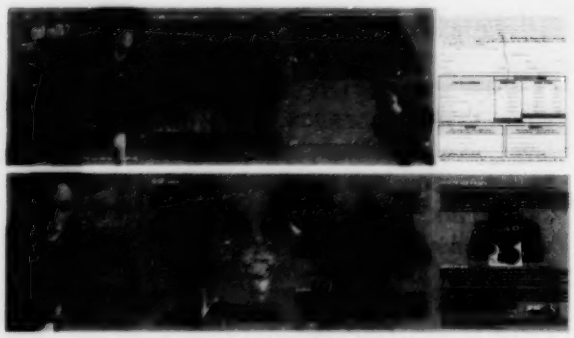


1998/99



1997/98

PRODUCT PROMOTION



In March of 1999, Manitoba Milk Producers partnered with Christie Brown featuring the "got milk? get gear!" promotion. Consumers accumulated grocery receipts where milk was purchased. Upon collecting the required number of points listed in our "got milk? get gear!" brochure, consumers could redeem their receipts for a variety of great "got milk?" merchandise. Among them, t-shirts, CD cases, jumbo tumblers, sports paks, and hooded sweatshirts. Approximately 1200 consumers participated in this high-quality program. With the help of television advertising, where consumers were asked to look for the "got milk? get gear!" message, the awareness level around the city was strong.

Cream

Marketing activity in the area of cream continued to focus in foodservice, where it is believed about 60 - 70 percent of cream is consumed. The first phase of the Real Cream program was introduced to the Manitoba market over the past few years to promote Real Whipping Cream in desserts. In 1998 - 1999 the second phase of the program evolved to promote 18% Premium Table Cream with coffee, complimenting Real Whipping Cream in desserts. These phases work together to provide significant customer awareness of the Real Cream logo and Real Cream products.

A multi-media campaign was developed to prompt consumers to watch for and demand Real Cream. The campaign included magazine advertising, shelf talkers, outdoor and backlit billboards as well as point of sale and product identitiy programs. In addition, Manitoba Milk Producers participated in the Centrex trade show (for the hospitality industry) in the fall to introduce the second phase of the Real Cream program to the trade.

Manitoba Milk Producers partnered with Manitoba processors to deliver "A Taste of the 'Real' Good Life", a new winter promotion for the Real Cream program. The promotion consisted of two related contests: In the first, consumers who ordered a dessert made with Real Whipping Cream were entered to win a trip for two to San Francisco and the Sonoma Valley. The second, a staff incentive encouraged servers at participating restaurants to promote Real Whipping Cream desserts and enter to win a trip to San Francisco and the Sonoma Valley for each dessert they sold. Point of sale materials and radio advertising on Winnipeg's strongest stations were developed to support the contest. The promotion was very well received by the trade as well as consumers and plans are under way for a similar venture next year.

Manitoba Milk Producers also partnered with the processors to deliver retail promotions during both the Christmas and summer seasons which included the distribution of recipes and coupons.

SCHOOL MILK PROGRAM

Milk continues to have a strong presence in Manitoba schools. 588 schools took part in the School Milk Program this year. This represents a 4% increase in the number of schools over last year and an overall 78% participation rate in Manitoba schools.

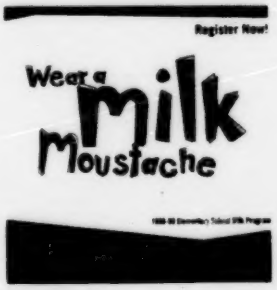
Ongoing evaluations indicate that schools strongly believe the Milk Program helps them motivate children to drink milk at school every day. Commitment to the School Milk Program continues to grow as more and more schools develop special activities such as "Classroom Challenges" to further promote milk in their schools. The flexibility of the program is rated very highly by schools as it allows them to maximize student interest and ownership. The program encourages active student participation and provides an opportunity for students to practise and enhance basic skills.

Milk Spirit Week, Winnie the Moo, our Mascot, 15th Anniversary Celebration, School Moosletters and "Milk Driver of the Year" Award are all complimentary programs that continue to be very well received in schools and play an important role in strengthening the School Milk Program throughout the province.

Photo courtesy of Virden Empire-Advance

In the picture above, Goulter School demonstrates that it is not as easy as it looks to milk a cow, especially when the udder in question is a plastic glove with small holes in the bottom of each finger. This activity is one of many suggested to schools taking part in Milk Spirit Week.

1998/99 Junior/Senior High registration brochure



1998/99 Elementary School registration brochure

NUTRITION EDUCATION

Nutrition Education programs continue to serve a wide variety of audiences in Manitoba - with a change in staff this year. Pat Bugera-Krawchuk joined the Nutrition Education Department. Pat has worked in both School Milk and Product Marketing and will now spend 2 days each week in Nutrition (managing the School Milk Program the other 3 days a week); Lori Rudolph-Crawford will continue to work 3 days a week to maintain a full time position in the Nutrition Department.

The new health curriculum is tentatively slated for release in 1999 - 2000, at which time promotion of our nutrition programs for teachers will resume. Upon the release of the new curriculum, new materials and workshops will be developed to meet the needs of Manitoba schools.

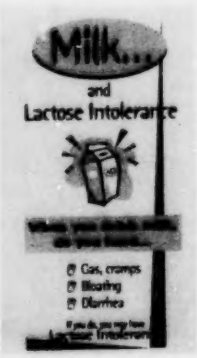
Milk's commitment to the Osteoporosis Society Chapter continues. Our resources are used to deliver the calcium message. Pat McCarthy Briggs organizes volunteer training in the province, ensuring that the first message about calcium is always a food message...milk! Our display has travelled the province making over 25 appearances at various community health fairs. Pat has made several presentations on calcium and bone health to a variety of health professionals including family practice physicians.

We continue to respond to requests for lectures and in-service at various educational institutes including the Faculties of Education, Nursing, Home Ec & Phys Ed and the Dental Assistant Program, Health Care Aid & Child Care Worker programs at community colleges. Pat Bugera Krawchuk and Lori have been involved in the development of a new nutrition curriculum for the training of home care workers and health care aids in the province.

The exposure of milk recipes in "Great Tastes of Manitoba" (a television cooking show) will continue as the program moves to Global television (after a year of absence). Lori organizes our participation with other Manitoba commodity groups at events such as Brandon's Royal Winter Fair and various mall promotions. The commodity groups also jointly produced a recipe booklet in celebration of the Pan Am Games.

The 1999 Nutrition Forum organized in partnership with Dietitians of Canada was a great success again this year. Over 300 health professionals attended from all over Manitoba. Dairy Farmers of Canada sponsored a program by Dr. Robert Heaney, a world renown calcium researcher and promoter of milk. His presentation was attended by about 150 Manitoba health professionals.

Pat McCarthy Briggs, Pat Bugera Krawchuk and Lori Rudolph-Crawford's regular involvement in key nutrition committees and programs throughout the province maintains an ongoing Milk presence in Manitoba health programs. We look forward to furthering this year's work and increase opportunities for our milk and calcium message in the 1999/2000 dairy year.



TRANSPORTATION

Numerous changes have come about in the transportation department in the past year. The Boards objective with respect to transportation is to ensure that the system as a whole is made as efficient as possible without sacrificing the excellent service to producers. That has been the objective over the past year and will continue to be for the next dairy year.

During the past year the board has taken a new hands-on approach in looking at milk transportation. Starting in early spring, Sheldon Leniuk, the new Field Technician for the Manitoba Milk Producers, began riding the routes with the numerous transporters collecting a variety of information and getting feed-back from the various drivers and owners. With this information in hand, the Board can get a better feeling for what is happening in the field, make better educated decisions with respect to route changes and improvements, as well as help transporters and include them in the process of change. Up to this point in time, Sheldon has ridden roughly half of the routes in the province and will work on the rest in the following months. With regards to route rationalization, the Interlake exchange between M & M Bulk Milk Service and G. Thorimbert Ltd. took effect September 1, 1999. This will result in savings to all producers. The Board would like to thank both the transporters and producers involved in this change for their cooperation and efforts.

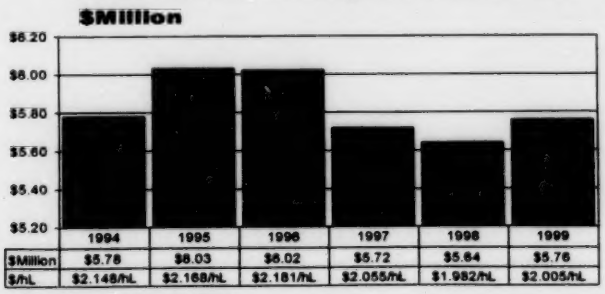
This year saw the sale of one transporter in March 1999 leaving the province with sixteen transporters. As of September 1999, one more transporter is selling out. As with producers, transporters are increasing in size to take advantage of economies of scale. Currently, the Board is negotiating a new payment rate schedule with transporters for the 1999/2000 dairy year. The Board expects an agreement to be effective September 1, 1999.

The Board and staff would like to thank transporters for all their co-operation and hard work given in the past year.

Facts and Figures

No. of	1993/1994	1994/1995	1995/1996	1996/1997	1997/1998	1998/1999
Haulers	20	19	19	18	17	16
Tandems	34	33	28	27	26	24
Trailers	7	8	11	12	12	14
Routes	105	107	100	98	100	103
Estimated Annual distances (km)	3,731,000	3,823,000	3,737,000	3,682,000	3,604,000	3,585,000
No. of hl hauled per (km)	0.684	0.686	0.737	0.758	0.790	0.800

Total Annual Transportation Costs



Dairy Year ending July 31st

Hutchings Mayhew
Chartered Accountants

DFK INTERNATIONAL Member of DFK International and DFK Accountancy Group Inc. (Canada) with affiliated offices worldwide.

To the Registered Producers of
Manitoba Milk Producers

We have audited the consolidated statement of financial position of Manitoba Milk Producers as at July 31, 1999, and statements of operations of milk pool fund, general fund, transportation fund, quota exchange, MFC Testing and Research Inc. and consolidated statement of changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly in all material respects, the financial position of the Corporation as at July 31, 1999, and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

Hutchings Mayhew

Winnipeg, Manitoba
September 29, 1999

Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 1999

Exhibit A

	1999	1998
CURRENT ASSETS:		
Cash	$ 878,375	$ 3,295,382
Accounts receivable	15,916,288	13,162,812
Prepaid expenses	143,916	96,722
Total current assets	16,938,579	16,554,916
CURRENT LIABILITIES:		
Producer cheques - unissued	12,471,752	11,697,222
Accounts payable and accrued liabilities	1,797,878	2,554,005
Total current liabilities	14,269,630	14,251,227
WORKING CAPITAL	2,668,949	2,303,689
PROPERTY, BUILDING AND EQUIPMENT:		
Cost	2,075,848	2,067,564
Less accumulated amortization	(1,327,494)	(1,234,311)
Net property, building and equipment	748,354	833,253
REGISTERED PRODUCERS' EQUITY AND CAPITAL EMPLOYED	**$ 3,417,303**	**$ 3,136,942**
Represented by the following:		
Corporation funds		
General (Ex.C)	$ 2,387,652	$ 2,439,718
Transportation (Ex.D)	-	-
Quota Exchange (Ex.E)	1,605,158	1,328,173
Subsidiary Company -		
MFC Testing and Research Inc. (Ex.F)	(575,507)	(630,949)
	$ 3,417,303	**$ 3,136,942**

Approved by the Members

Hugh M. Jameson
Hugh Jameson

Bill Swan
Bill Swan

STATEMENT OF MILK POOL FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1999

Exhibit B

	1999	1998
INCOME:		
Milk sold to processors	$ 161,962,244	$ 159,541,130
Investment interest	196,158	136,736
Total income	162,158,402	159,677,866
DISTRIBUTION:		
Payments to Manitoba producers	150,413,513	142,856,791
Interprovincial pool equalization payments	1,349,277	6,571,112
Deductions for Corporation controlled funds:		
General (Ex.C)	4,079,854	4,029,866
Transportation (Ex.D)	5,774,987	5,641,438
Deductions determined by others:		
Manitoba Milk Recording Corporation	86,081	85,026
Keystone Agricultural Producers	41,400	52,800
Other deductions:		
Quality penalty levy (Ex.C)	117,943	180,460
Optional export program	36,755	-
Food Bank donations	59,442	63,663
MFC Testing and Research Inc. (Ex. F)	199,150	196,710
Total distribution	162,158,402	159,677,866
UNDISTRIBUTED INCOME FOR THE YEAR	-	-
APPROPRIATION TO GENERAL FUNDS	-	-
UNDISTRIBUTED INCOME AT BEGINNING AND END OF THE YEAR	$ -	$ -
VOLUME OF MILK (in thousand litres)	287,264	284,547

STATEMENT OF GENERAL FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1999

Exhibit C

	1999	1998
INCOME:		
Deductions (Ex.B)		
Milk producers	$ 4,079,854	$ 4,029,866
Quality penalties	117,943	180,460
Cream producers	46	98
Interest	231,212	148,944
	4,429,055	4,359,368
EXPENSE:		
Amortization	47,595	50,796
Antibiotic milk losses	42,627	58,889
Communication	80,007	82,109
Cost incurred from plant labour dispute	-	78,719
Interest allocated to milk pool	196,158	136,736
Meetings and seminars	72,845	69,728
Members (Note 4)	332,483	318,779
Memberships and grants	91,250	96,299
Milk sample costs	70,547	43,218
Occupancy	67,479	65,150
Office supplies	77,055	67,711
Professional fees	95,987	119,547
Quality premiums	-	131,357
Salaries and benefits	815,480	775,462
Staff travel	88,901	69,888
Other	38,026	42,120
Media advertising		
Dairy Farmers of Canada	1,432,355	1,395,740
Provincial	783,581	791,243
Promotional materials	122,450	119,201
Special event sponsorship	54,444	35,419
Expense recovery	(28,149)	(28,856)
	4,481,121	4,519,255
NET INCOME (LOSS) FOR THE YEAR	(52,066)	(159,887)
RETAINED INCOME AT BEGINNING OF THE YEAR	2,439,718	2,498,941
APPROPRIATION FROM QUOTA EXCHANGE	-	100,664
RETAINED INCOME AT END OF THE YEAR	**$ 2,387,652**	**$ 2,439,718**

STATEMENT OF TRANSPORTATION FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1999

Exhibit D

	1999	1998
INCOME:		
Deductions (Ex.B)	$ 5,774,987	$ 5,641,438
Diversion revenue	-	36,110
	5,774,987	5,677,548
EXPENSE:		
Transporter payments:		
Assigned plant deliveries	5,639,343	5,494,143
Diversions	35,644	83,405
Salaries and benefits	100,000	100,000
	5,774,987	5,677,548
NET INCOME FOR THE YEAR	-	-
RETAINED INCOME AT BEGINNING OF THE YEAR	-	-
RETAINED INCOME AT END OF THE YEAR	$ -	$ -

STATEMENT OF QUOTA EXCHANGE OPERATIONS
FOR THE YEAR ENDED JULY 31, 1999

Exhibit E

		1999		1998
QUOTA EXCHANGED:				
Quota transfers to successful bidders		18,639,924		17,907,035
Quota transfers from successful offerors		18,362,939		16,920,115
Quota exchange result excess(deficiency)		276,985		986,920
INCOME:				
Interest earned		-		5,802
		276,985		992,722
BALANCE AT BEGINNING OF THE YEAR		1,328,173		436,115
APPROPRIATION TO GENERAL FUND		-		(100,664)
BALANCE AT END OF THE YEAR	**$**	**1,605,158**	**$**	**1,328,173**

The Corporation administers a monthly quota exchange to facilitate the orderly transfer of quota between producers.

STATEMENT OF MFC TESTING & RESEARCH INC. OPERATIONS
FOR THE YEAR ENDED JULY 31, 1999

Exhibit F

	1999	1998
INCOME:		
Component testing fees -		
Deductions (Ex.B)	$ 199,150	$ 196,710
Milk recording program	156,265	153,673
Processor - proportionate sample fees	83,362	65,442
Other income	38,070	17,928
	476,847	433,753
EXPENSE:		
Amortization	45,588	46,533
Board members' per diems and travel (Note 4)	4,043	-
Courier service	20,232	22,613
Data processing	4,291	2,016
Insurance	8,916	9,434
Interest (Note 1C)	12,069	11,302
Laboratory accreditation	8,317	2,262
Laboratory supplies	35,551	33,475
Maintenance	12,534	18,317
Occupancy (Note 1C)	16,080	17,554
Office supplies	1,084	1,191
Other	3,214	3,105
Professional fees	15,030	27,231
Salaries and benefits	232,374	220,599
Staff travel	147	197
Staff training	1,935	2,435
	421,405	418,264
INCOME (LOSS) FOR THE YEAR	55,442	15,489
(DEFICIT) AT BEGINNING OF THE YEAR	(630,949)	(646,438)
(DEFICIT) AT END OF THE YEAR	$ (575,507)	$ (630,949)

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION
FOR THE YEAR ENDED JULY 31, 1999

Exhibit G

	1999	1998
OPERATING ACTIVITIES:		
Net income(loss) of funds -		
General (Ex.C)	$ (52,066)	$ (159,887)
Transportation (Ex.D)	-	-
Milk Pool (Ex.B)	-	-
	(52,066)	(159,887)
Quota Exchange (Ex.E)	276,985	992,722
Income (Loss) of subsidiary -		
MFC Testing and Research Inc.(Ex.F)	55,442	15,489
	280,361	848,324
Non-cash items included in above -		
Amortization	93,183	97,329
Loss on disposal of equipment	-	2,357
	373,544	948,010
INVESTING ACTIVITIES:		
Proceeds on disposal of equipment	-	3,968
Purchase of property, building and equipment	(8,284)	(6,112)
	(8,284)	(2,144)
FINANCING ACTIVITIES:	-	-
INCREASE (DECREASE) IN WORKING CAPITAL POSITION FOR THE YEAR	365,260	945,866
CASH PROVIDED BY (USED IN) OPERATION OF NON-CASH WORKING CAPITAL COMPONENTS	(2,782,267)	865,295
INCREASE (DECREASE) IN CASH POSITION FOR THE YEAR	(2,417,007)	1,811,161
CASH POSITION AT BEGINNING OF THE YEAR	3,295,382	1,484,221
CASH POSITION AT END OF THE YEAR	**$ 878,375**	**$ 3,295,382**

( ) denotes use of cash

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1999

1. SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Manitoba Milk Producers is a body corporate established under The Natural Products Marketing Act of the Province of Manitoba in 1974. The Corporation is responsible for the control and regulation of the marketing of milk in the province.

(a) MILK POOL FUND

Selling prices - The value of milk sold to processors is determined by its final product use. The Corporation sets the prices charged to processors except for Class I milk which is set by the Manitoba Milk Prices Review Commission. For purposes of accountability to producers the Corporation credits income from processor sales to a milk pool fund.

Costs of sales - Commencing in 1997 the Corporation participates in interprovincial arrangements with the Western Milk Pool, the All Milk Pool in the east and the Canadian Dairy Commission in order to share milk sale revenues equally among Canadian milk producers. The resulting share of interprovincial revenues is paid to the individual Manitoba producers based on the quality and quantity of milk shipped.

The operation of the milk pool is accounted for in Exhibit B.

(b) PRODUCER DEDUCTION FUNDS

Operating Expenses - The Corporation is authorized through provincial statute to deduct fees from producer milk pool payments to cover operating expenses. Such deductions are accounted for separately in Exhibits C, D, and F.

(c) BASIS OF CONSOLIDATION

The Corporation and its wholly owned subsidiary MFC Testing and Research Inc. are considered to be one economic entity for accounting purposes. Accordingly, these financial statements are presented on a consolidated basis. However certain transactions between the Corporation general fund and the subsidiary cannot be eliminated in the respective statements of operations because the Corporation, by government regulation, follows the fund basis of accounting. The resulting related party transactions not eliminated on consolidation are as follows:

	1999	1998
Interest	$12,069	$11,302
Occupancy	16,080	17,554
	$28,149	$28,856

(d) **PROPERTY, BUILDING, EQUIPMENT AND RELATED AMORTIZATION**

Property, building and equipment are stated at cost. Amortization is provided for on the straight-line basis over an estimated life of five years for office equipment, seven years for laboratory equipment and thirty years for the building.

(e) **INCOME TAXES**

The Corporation's subsidiary company is a taxable Canadian corporation accounting for income taxes under the tax allocation method. The subsidiary has incurred losses which are not certain of utilization. Accordingly the tax reductions that may result from the application of these losses have not been recognized in the accounts as explained in Note 6.

2. **COMMITMENTS:**

Manitoba entered into an agreement with five other provinces to establish an interprovincial milk pooling arrangement for all milk revenues commencing August 1, 1996. As a condition of becoming a partner in the arrangement the Corporation agreed to pay to the other partners a net exchange consideration of $1.8 million. This agreement was altered through negotiations with the other parties whereby the cost to the Corporation was reduced to $ 122,616 from $ 2,587,500. During 1999 the Corporation paid $ 40,836 to other provinces. These payments are included in the 1999 interprovincial pool equalization payments in Exhibit B. At July 31, 1999 the Corporation owed $ 3,478 to other provinces payable in the period August 1, 1999 to 2000.

3. **PENSION PLAN:**

Employees of the Corporation participate in the Manitoba Civil Service Superannuation Board pension plan which is a defined benefit plan.
Employees of MFC Testing and Research Inc. participate in a defined contribution plan administered by a Canadian insurance company.
The Corporation participates in both plans on a defined contribution basis whereby it contributes to the plan a fixed amount equal to the amount contributed by the employees.

4. ELECTED MEMBERS PER DIEM AND TRAVEL EXPENSES:

Members are paid a per diem of $180 ($175 - 1998) and the Chairman $217 ($217 - 1998) for time spent at meetings or on business matters of the Corporation. In the following information the Chairman's per diem includes an annual stipend of $20,000 and the Vice-Chairman's per diem an annual stipend of $10,000.

District		Per Diem	Expenses
#1	Russell McKague	$ 13,988	$ 8,129
#2	Hugh Jameson	14,008	7,959
#3	Craig Finnie	5,333	3,129
#3	Hans Borst	8,400	7,630
#4	Maurice Delichte	18,200	12,959
#5	William Swan (Chairman)	45,065	29,270
#6	Neil Van Ryssel (Chairman)	26,711	10,902
#6	John Bannister	11,404	5,605
#7	Ken Leppky (Vice Chairman)	23,281	20,946
#8	Ray Pelletier	18,371	14,603
#9	David Wiens	15,742	14,891
	1999	$ 200,503	$136,023
	1998	$ 206,643	$112,136

5. PROPERTY, BUILDING AND EQUIPMENT:

	Cost	Accumulated amortization	Amortization rate
Land	$ 104,109	$ -	-
Building	833,204	281,690	30 years
Equipment			
- laboratory	603,480	542,812	7 years
- other	535,055	502,992	5 years
	$2,075,848	$1,327,494	

6. INCOME TAXES:

Manitoba Milk Producers is an agricultural organization whose income is not payable to or otherwise available for the personal benefit of any registered producer. Accordingly, the net income of the Corporation is exempt from income taxes. MFC Testing and Research Inc. is a taxable Canadian corporation. The potential income tax benefits associated with its accumulated operating losses of $575,507 are not recognized in the accounts because of the uncertainty of utilization. The losses are available to reduce taxable income of future years but their availability will expire after 2000.

7. 1998 COMPARATIVE FIGURES:

Certain of the 1998 comparative figures have been reclassified to conform with the 1999 classification of financial information.

Standing Advisory Committees

Executive
Wm. Swan, Chairman
K. P. Leppky, Vice-Chairman
M. Delichte, Executive Member

Environment
H. Borst
J. Bannister
K. P. Leppky

Finance
R. H. McKague
H. Jameson
K. P. Leppky

Product Promotion
R. H. McKague
D. Wiens
H. Borst

Transportation
J. Bannister
M. Delichte
R. Pelletier

HACCP
D. Wiens
M. Delichte
R. Pelletier

Scholarships and Awards
D. Wiens
K. Wittenberg
K. P. Leppky

Golf Tournament
N. Van Ryssel
W. English
J. Wade
and power to add

25th Anniversary
H. & M. Jameson
M. & L. Delichte
R. & F. McKague
W. & J. English

Affiliated Organizations

Canadian Milk Supply Management
Wm. Swan
M. Delichte
D. Wiens

Dairy Farmers of Canada
Wm. Swan

DFC Promotion
D. Wiens

Delegates
D. Wiens
R. Pelletier
M. Delichte

Agriculture in the Classroom
R. Pelletier

Manitoba Farm Animal Council
H. Borst

Keystone Agricultural Producers
R. Pelletier

Delegates
M. Delichte
J. Bannister
K. P. Leppky

Manitoba Forage Council
J. Bannister

Manitoba Safety Council
K. P. Leppky

STAFF

Front row (left to right)

Olga Komoski, Computer Programming
Suzanne Sharp, MFC Lab Assistant
Sharon Ramsumair, MFC Lab Assistant
Teresa Ciccarelli, Product Marketing Coordinator
Kim Latimer, MFC Lab Administrative Assistant
Sandra Shank, Administrative Assistant
Marichelle Cardinoza, MFC Chemical Technician
Julie Giesbrecht, Receptionist

Back row (left to right)

Trudy Tuhkanen, Accounting Clerk
Viv Draward, Product Marketing Director
Wayne English, Producer Relations Supervisor
Shirley Douglas, Producer Relations
Jack Sinnock, Controller
Pat Bugera Krawchuk, School Milk Coordinator/Nutrition Education
Rob Parsons, MFC Chemical Technician
William Barker, MFC Lab Manager
Krystina Jackowski, MFC Lab Administrative Assistant
Pat McCarthy-Briggs, Nutrition Education Director
Jo Hooper, Nutrition Education
Jim Wade, General Manager/Corporate Secretary

Missing from photo:

Brent Achtemichuk
Policy Analyst

Bruce Grewar
Producer Relations Coordinator

Colleen West
School Milk

Enrique Magat
Auditor

John Breckman
Transportation

Lori Rudolph-Crawford
Nutrition Education

Sheldon Leniuk
Field Technician